

International and markets

US: At the annual Jackson Hole symposium, US Fed chair Powell reiterated the bank's commitment to bring down inflation, acknowledging that aggressive policy tightening could result in sustained "below-trend growth" and a softer labor market. He hinted that higher interest rates could stay until the Fed achieves price stability, cautioning against premature loosening. He delivered the speech shortly after the release of core PCE, the bank's preferred inflation gauge, which decelerated to 4.6% y/y in July from 4.8% in June, and 0.1% m/m from 0.6%, the slowest rise since February 2021. Headline PCE declined to 6.3% y/y and -0.1% m/m (from 6.8% and 1%, respectively, in June), driven by a fall in gasoline prices. Meanwhile, the second estimate of 2Q22 GDP growth stood at -0.6% q/q, slightly better than the initial estimate of -0.9%, mainly driven by an upward revision in personal consumption growth to +1.5% from +1%.

Europe: The Composite Eurozone PMI for August contracted further to 49.2, an 18-month low, from 49.9 in July, constrained by rising prices and softening demand. Both manufacturing and services declined, to 49.7 and 50.2 respectively (from 49.8 and 51.2 in July). In revised estimates, Germany's GDP grew 0.1% q/q in 2Q versus flash estimates of no growth. As for the UK, the PMI, though not yet in contraction territory, dropped to 50.9 from 52.1 in July; manufacturing tumbled to 46 (52.1 in July), while services (52.2) barely maintained the momentum. Meanwhile, the euro fell below parity with the dollar again after a spike in European gas prices, sparking fears of persistent inflation amid a wider interest rate differential versus the USD.

Financial markets: Global equity markets declined as the Fed reaffirmed its hawkish stance. The MSCI ACWI fell 2.9% w/w led by steep losses in the US, with the S&P down 4%. The 10-year treasury yield rose 4.6 bps to 3.04% on firmer inflation and rate hike expectations. The MSCI GCC was less affected at -0.3%, buttressed by higher oil prices, with Kuwait and Dubai outperforming (+1.3%).

Oil: Brent gained 4.4% last week, closing at \$101/bbl buoyed by comments from Saudi Prince Abd Al-Aziz about OPEC+'s willingness to cut production to stabilize a volatile and liquidity-tight futures market that he said has become disconnected from fundamentals. Prices were also supported by further crude stock drawdowns in the US—a sign of still-strong oil demand.

MENA Region

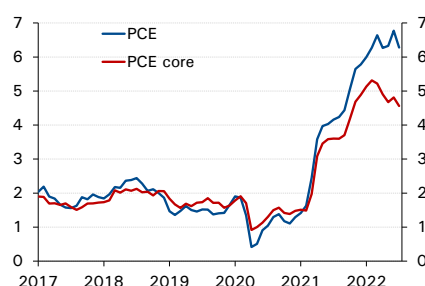
Kuwait: Inflation eased to 4.2% y/y in July (+0.1 % m/m), slowing for a third consecutive month from its peak of 4.7% in

▶ **Chart 1: Brent crude oil price**
(\$/bbl)



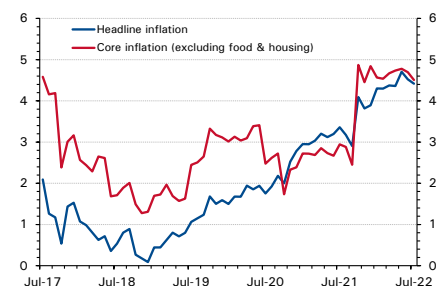
Source: Refinitiv

▶ **Chart 2: US PCE inflation**
(%, y/y)



Source: Haver

▶ **Chart 3: Kuwait inflation**
(%, y/y)



Source: CSB

April. The moderation has largely been driven by easing food price inflation (+7.8% y/y; 0.3% m/m), though the core rate has also slowed, to 4.4%. Education (+19%), clothing (+5.7%) and transportation (4.3%) were the main contributors. Banks are asking the government to pay KD0.4 bn of arrears related to the deferral of loans for six months (April-October 2021).

Saudi Arabia: Non-oil exports were up by 27% y/y in June, while imports rose by 29% to SAR60 bn. For 1H2022, non-oil exports rose by 31%, nearly double the 17% increase in imports, in a continuation of the trend witnessed last year.

UAE: Dubai CPI rose by 7.1% y/y in July, up from 5.8% y/y in June, the fastest growth in more than a decade coming mainly from increasing costs in transportation (38.6%), food (8.8%), and housing costs (0.9%).

Egypt: According to media reports, the government is in the final stages of agreeing a new deal with the IMF worth \$3 bn. Meanwhile, the central bank has canceled the maximum limits for deposits in bank branches and ATMs while increasing the daily maximum limit for cash withdrawals from bank branches from LE50,000 to LE150,000. The daily limit for withdrawals from ATMs was maintained at LE20,000.

Key takeaways:

- Fed chair Powell's relatively hawkish remarks dashed hopes of a dovish policy pivot anytime soon, with the bank set to prioritize bringing inflation down over supporting economic growth. The odds for a 75 bps (versus 50 bps) hike at the Fed's September meeting rose after the speech to around 60%.
- Weakening PMIs underscore the headwinds facing both the Eurozone and UK economies, making recession almost certain later this year against a backdrop of crippling high energy prices. The challenge facing both the ECB and BoE is how to bring down inflation without causing a more painful downturn.
- Kuwait's inflation, although still elevated by historical standards, continues to trend slightly lower. We expect further falls in 2H22 on easing global pressures, tightening monetary policy, the strong dinar and as some of last year's big price rises fall out of the year-on-year comparison.
- In Egypt, media reports of a \$3bn IMF deal if substantiated would be below initial expectations of the deal size, and could perhaps reflect a less ambitious reform program. Still, the decision to loosen deposit and withdrawal limits is a positive and signals moves towards restoring financial sector flexibility – an anticipated IMF requirement.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,108	-1.0	-16.9
DAX	12,971	-4.2	-18.3
DJIA	32,283	-4.2	-11.2
Eurostoxx 50	3,604	-3.4	-16.2
FTSE 100	7,427	-1.6	0.6
Nikkei 225	28,641	-1.0	-0.5
S&P 500	4,058	-4.0	-14.9
Regional			
Abu Dhabi SM	10,079	0.0	18.7
Bahrain ASI	1,901	0.2	5.8
Dubai FM	3,463	1.3	8.4
Egypt EGX 30	10,287	1.9	-13.9
MSCI GCC	816	-0.3	10.7
Kuwait SE	7,786	1.3	10.5
KSA Tadawul	12,592	-0.2	11.6
Muscat SM 30	4,538	-1.5	9.9
Qatar Exchange	13,746	-1.9	18.2

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.04	4.6	152.3
Bunds 10 Year	1.40	16.4	157.7
Gilts 10 Year	2.61	19.4	163.4
JGB 10 Year	0.22	2.1	15.0
Regional			
Abu Dhabi 2027	3.35	5.6	87.8
Oman 2027	5.52	11.7	25.8
Qatar 2026	3.53	15.4	102.3
Kuwait 2027	3.40	3.4	98.3
Saudi Arabia 2028	3.66	-1.0	73.1
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	101.0	4.4	29.8
KEC	106.8	4.8	35.0
WTI	93.1	2.5	23.7
Gold	1736.1	-0.7	-5.0

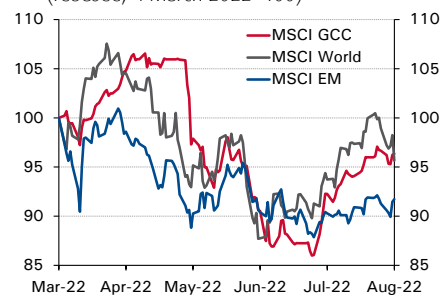
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	4.13	0.0	260.8
Kibor - 3 month	2.63	6.3	112.5
Qibor - 3 month	2.45	0.0	132.5
Eibor - 3 month	2.81	-7.0	244.7
Saibor - 3 month	3.05	6.8	214.5
Libor - 3 month	3.07	11.2	286.0
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.307	0.0	1.7
KWD per EUR	0.307	-0.7	-10.9
USD per EUR	0.996	-0.7	-12.4
JPY per USD	137.5	0.4	19.5
USD per GBP	1.175	-0.7	-13.2
EGP per USD	19.17	0.3	22.4

Updated on 26/8/2022

Source: Refinitiv

International equity markets

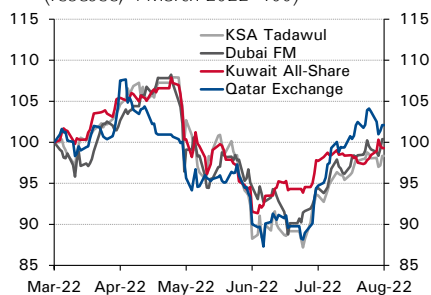
(rebased, 4 March 2022=100)



Source: Refinitiv

GCC equity markets

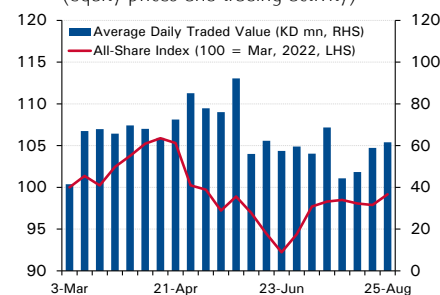
(rebased, 4 March 2022=100)



Source: Refinitiv

Boursa Kuwait

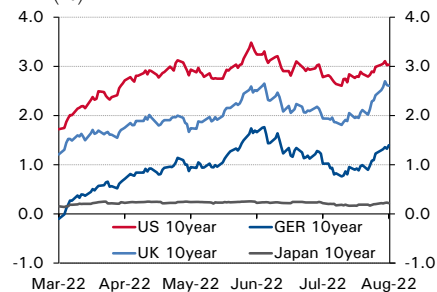
(equity prices and trading activity)



Source: Refinitiv

International bond yields

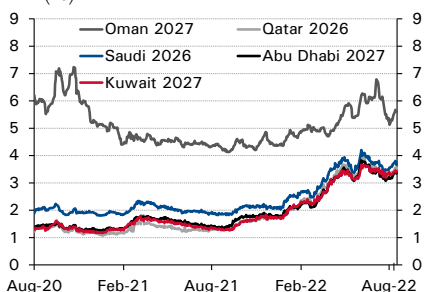
(%)



Source: Refinitiv

GCC bond yields

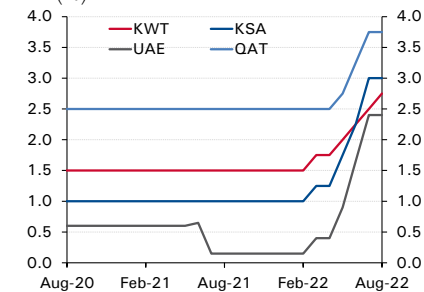
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv